The most recent and perhaps the most important expansion of mortgage securities programs at both FHLMC and FNMA has been the adoption of the book entry system. The book entry system computerizes the handling of registration, trading, transfer, settlement and monthly payments of mortgage pass-through securities. Effective the beginning of this year, newly issued FHLMC PCs were offered in a book entry form. The Federal Reserve Bank of New York (FRBNY) became the register, transfer and paying agent for newly issued FHLMC PCs. In May, FNMA announced a similar program, changing its newly issued FNMA MBSs from definitive to book entry form. Recently, GNMA has also announced that it is moving to a book entry system, but has endorsed the private MBS Clearing Corporation as its depository.

Book entry allows rapid, accurate and professional handling of mortgage securities transactions. Presently, book entry securities have to be maintained through depository institutions that have book entry accounts at the FRBNY. Institutions eligible to hold such accounts are those in the Second Federal Reserve District. Investors of book entry securities, therefore, have to have their securities either held directly at eligible institutions that have a book entry account or at their local depository institutions that have a correspondent relationship with the eligible institutions.

While book entry is adopted initially for newly issued securities, both FHLMC and FNMA are in the process of converting their existing mortgage pass-throughs to the new system.

Huge issuance of pass-throughs

Ignited by the mortgage swap programs, issuance of mortgage pass-throughs exploded in 1982. As shown in Figure 1, annual issuance of FHLMC PCs surged to $24.2 billion in 1982, more than six times as large as its previous year. In the following two years, FHLMC PC issuance proceeded at a pace nearly $20 billion annually. So far this year, new issuance of FHLMC PCs has continued at such a pace. In a historical perspective, the total cumulative FHLMC PC issuance between 1970 and 1981 was only slightly over $22 billion.

FNMA's record was equally impressive. During a brief period after its late 1981 debut, FNMA securitized $700 million mortgages. In 1982, however, issuance of FNMA pass-throughs soared to $14 billion. Again, during the following two and a half years, FNMA has maintained its issuance volume at approximately $14 billion per year.

In addition to the swap programs, which basically securitize both newly originated and seasoned conventional mortgages, GNMA played a vital role in securitizing newly originated FHA/VA mortgages. In fact, as the plunging interest rates in 1983 unleashed the pent-up housing demand, mortgage originations in that year more than doubled those of the previous year. Consequently, annual issuance of GNMAs rocketed to $50 billion.

Several factors contributed to the huge issuance of GNMA: First, FHA/VA financings are usually cheaper than conventional mortgages thus enabling the bulging number of young households to rely on such financings to purchase their first homes. Second, merchant home builders have recently begun to access the capital markets directly through "builder bonds" to finance their prospective homebuyers. These bonds are mostly collateralized by GNMAs. Third, FNMA, traditionally a major purchaser of FHA/VA mortgages (average annual purchases in the 1970s: $6 billion), had substan-

continued

FIGURE 1B

Annual Outstanding Balance of GNMAs, FNMAs, FHLMC PCs
1970-1985

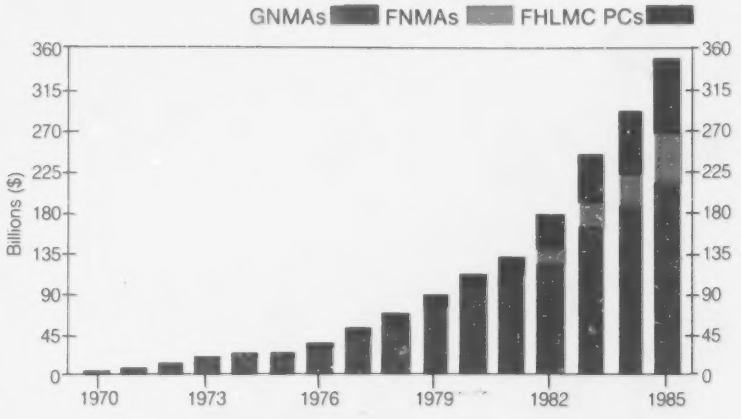


Table 1B

Outstandings

	GNMAs ($ billions)	FNMAs ($ billions)	FHLMC PCs ($ billions)
1970	0.4	0	0
71	3.0	0	.1
72	5.3	0	.4
73	8.0	0	.8
74	12.1	0	.8
75	18.0	0	1.1
76	28.0	0	1.9
77	42.0	0	5.4
78	55.0	0	10.2
79	75.8	0	12.9
1980	93.9	0	14.8
81	105.8	0.7	17.9
82	118.9	14.5	41.1
83	159.8	25.1	56.4
84	180.0	36.2	69.5
85*	205.0	49.0	97.0

*1985 figures annualized based on first six months.
Source: GNMA, FNMA and FHLMC.

FIGURE 2A

Bond Equivalent Cash Flow Yields and Yield Spreads: GNMA 12.5% Vs. 10-Year Treasury

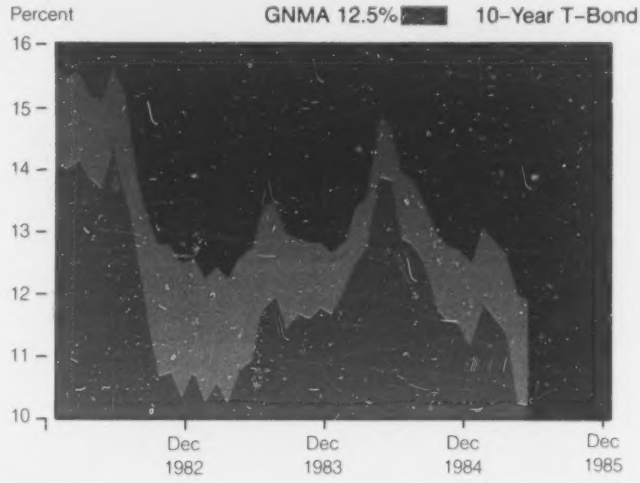


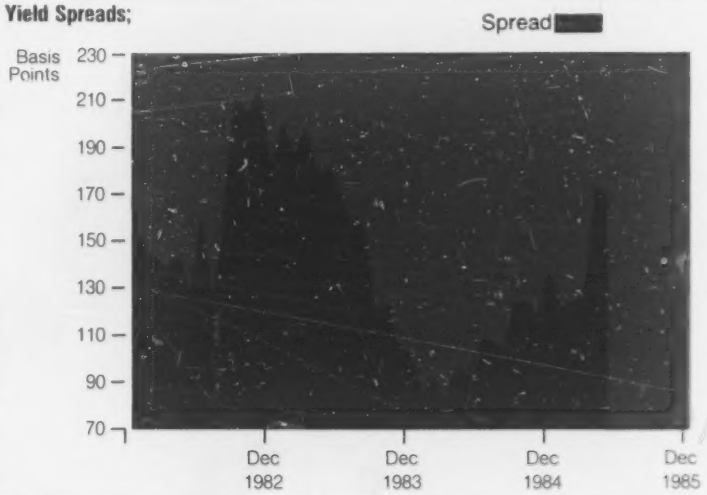
TABLE 2A

	GNMA Yields; 12.5% Securities*				Yield Spreads; 12.5% vs. 10-Year Treasuries* (basis points)				
	1982	1983	1984	1985		1982	1983	1984	1985
J	15.81	12.61	12.68	12.53	J	167	181	101	136
F	15.50	12.27	12.87	13.11	F	147	200	83	120
M	15.61	12.48	13.44	12.87	M	143	186	91	122
A	15.25	12.26	13.62	12.67	A	138	199	80	126
M	15.15	12.59	14.89	12.01	M	144	178	98	173
J	15.70	12.77	14.75	11.93	J	126	181	91	168
J	15.28	13.44	13.98		J	160	168	107	
A	14.03	13.53	13.85		A	122	155	106	
S	13.30	13.02	13.49		S	157	158	102	
O	12.81	12.92	13.02		O	210	118	123	
N	12.83	12.87	12.81		N	204	124	123	
D	12.52	12.86	12.73		D	216	104	118	

*Bond Equivalent, Cash Flow Yields, End of Month Source: E.F. Hutton & Company, Inc.

FIGURE 2B

Yield Spreads;



tially cut back their investments in these mortgages. In 1983, it purchased less than $150 million FHA/VA mortgages. As a result of FNMA's withdrawal, virtually all newly originated FHA/VA mortgages had been pooled for GNMAs. Finally, the sharp decline in interest rates in 1983 created a surge of refinancings. Many homeowners who purchased their homes in the 1980-82 period refinanced their high rate mortgages with FHA/VA mortgages.

After climbing to a record volume in 1983, however, GNMA issuance almost reduced by half in 1984. The very nature of the GNMA program contributed partially to this sharp decline. Unlike mortgage swaps at FHLMC and FNMA, GNMA only securitizes newly originated FHA/VA mortgages. Since late 1983, the primary mortgage market had been dominated by ARMs. The low initial rate of adjustable rate financings attracted many first-time homebuyers—the primary candidates for FHA/VA financings. Consequently, originations of FHA/VA mortgages and the subsequent issuance of GNMAs plummeted in 1984. Nevertheless, by historical standards, 1984's issuance was still the second highest on record. This year, as long-term mortgage rates have again declined substantially, monthly issuance of GNMAs have resumed to an annual rate of close to $40 billion.

Improved relative value

The huge supply of newly issued mortgage pass-throughs over the past three and a half years did not adversely affect their value in relation to Treasuries. In fact, during early 1982 and mid-1984, yield spreads between pass-throughs and 10-year Treasuries narrowed dramatically. Because GNMAs represent the benchmark value for all pass-throughs, their yield relationships to Treasuries reflect the general relative value of pass-throughs. As shown in Figure 2, the bond equivalent cash flow yield of GNMA 12½s in late 1982 was around 13 percent, which was 200 basis points above 10-year Treasuries. By mid-1984, bond equivalent yields on GNMA 12½s had risen to nearly 15 percent and the yield spreads collapsed to around 80 basis points. Although GNMA yields over Treasuries

in the past several months have widened irregularly, they were still significantly below the highs of early 1982.

A number of reasons contributed to the swing of these yield spreads in recent years. On the narrowing side, it can first be attributed to the market rally of 1982. In a sharply declining interest rate environment, investors usually opt lesser quality investments for higher yields. Despite the fact that GNMAs are supported by the full faith and credit of the U.S. government, they were still perceived by investors to be of lesser quality than Treasuries, primarily due to the monthly payment feature and the prepayment risk. Additionally, beginning with late 1982 when money market deposit accounts (MMDAs) were created, thrift institutions had been virtually deregulated. This deregulation has greatly enhanced the thrifts' ability to attract savings. With significant inflows of savings, thrifts were able to take down a large portion of the newly issued GNMAs, thus suppressing yield spreads between GNMAs and Treasuries. Also, because of the rising popularity of ARMs, GNMA issuance plummeted in 1984. This sharp decline of GNMAs happened to occur at a time when they are in high demand as collateral for issuing debt obligations. Most of these obligations were issued as a means to arbitraging yield differentials between GNMAs and Treasuries. Reduced supply coupled with increased demand resulted in a further narrowing in yield spreads.

As yield spreads collapsed to historically low levels in mid-1984, GNMAs became extremely expensive as collateral for arbitrage. Consequently, demand for GNMAs as a tool for arbitrage vanished, causing yield spreads to widen. In addition, as the Treasury market rallied in mid-1984 and again in the past few months, mortgage securities had lagged in the rally, further aggravating the levels of yield spreads. One factor that enabled Treasuries to turn in a stellar performance in recent market rallies was the participation of foreign investors. However, because the repeal of a 30 percent withholding tax on interest received by foreign investors applies only to Treasuries and corporates, GNMAs were deprived of the benefit of foreign investment.

"Both the volume and the variety of mortgage securities will further proliferate. The fundamental underpinning for the future growth in mortgage securities is the potentially strong demographic demand for housing."

Yield spreads continued to widen in early 1985 as the well publicized collapse of a few securities dealers disrupted the repo (repurchase or reverse repurchase) market which uses mortgage pass-throughs as collateral. For a brief period, there was a confusion in the market as to the true owner of the involved pass-throughs. As a result, secondary market trading was interrupted as securities dealers had become reluctant to position them. In the meantime, financial difficulties of a number of thrifts, both federally and state chartered, have made the thrift industry a marginal net purchaser or even periodically a net seller of mortgage securities. Without support of the thrifts, mortgage securities' relative value suffered a further setback.

In view of the factors which contributed to the wide swing of yield spreads, it still appears that mortgage securities had improved their values in relation to Treasuries. Yield spreads narrowed primarily due to fundamental changes in the mortgage securities market. They widened late for mostly technical reasons. All things considered, mortgage pass-throughs have performed well in recent years and their relative value to Treasuries has shown remarkable improvement.

The popularity of ARMs

Adjustable rate mortgages have been in existence since the late 1970s. Then, state-chartered thrifts in California were allowed to originate mortgages with a three- to five-year "renegotiable" or "rollover" interest rate. Later on in April 1981, FHLBB (Federal Home Loan Bank Board) issued a regulation allowing federally chartered thrifts to originate ARMs. However, prior to 1982, ARMs only had a limited success in the mortgage market. The relatively low profitability and uncertainty in monthly payments caused reluctance of both lenders and borrowers to accept ARMs. Although ARMs were gaining acceptance in the 1981-82 period when long-term mortgage rates were at historically high levels, this progress was interrupted by the tumbling long-term rates in the summer of 1982. It was not until late 1983, with the backup of interest rates and the aggressive marketing on the part of thrift institutions, that ARMs established a foothold in the mortgage market.

Thrifts began aggressively marketing ARMs in late 1983 when almost all of their deposit accounts were deregulated. This deregulatory action has greatly enhanced thrifts' ability to attract savings and other liabilities, particularly funds in short maturities. Consequently, the maturity structure of thrifts' liabilities has been significantly shortened. This shortening of maturity structure, in turn, pressured thrifts to acquire short-maturity or interest sensitive assets.

While ARMs generally have a 30-year maturity, their interest rates are adjustable periodically and thus are ideal interest sensitive investments for thrifts. As a result of the thrifts' aggressive marketing, originations of ARMs flourished in late 1983 and have thus far remained popular in the mortgage market (See Figure 3). Annual originations of ARMs in 1985 represented 37 percent of all conventional loan originations. In 1984, this share exploded to 61 percent, although it had declined moderately in recent months to a little over 50 percent. For the past two and a half years, total ARM originations are estimated to be amounted to nearly $200 billion.[2]

In the early stage of their surging popularity, numerous types of ARMs were created. In addition to the substantial difference in the initial rate among ARMs, there were also wide variations in such features as index of

adjustment, term of adjustment, margin, interest rate or payment adjustment caps and allowance of negative amortization. With these variations, the securitization of ARMs has been extremely difficult. However, as lenders became more experienced in originating ARMs, significant progress has been made to standardize ARMs. Recently originated ARMs have been mostly one-year adjustables, indexed by the one-year constant maturity Treasuries with a 200-250 basis point margin and two, five-year annual/lifetime caps. For those ARMs with annual payment caps, negative amortization is allowed but limited to 25 percent of the original loan balance.

In addition to standardization, progress has also been made in developing a pricing mechanism of ARMs for secondary market trading. With the establishment of the three necessary ingredients—volume, standardization and generally accepted pricing mechanism—a large issuance of ARM securities can be expected in the near future. In fact, close to 4 billion of ARM securities have been issued by FNMA in the past two years. FHLMC also has initiated programs actively pursuing the securitization of ARMs. Although GNMA has implemented its ARM program in July 1984, only $25 million of GNMA ARMs were issued. The lack of success of the GNMA ARM program can probably be attributed to its restrictive 1 percentage point annual interest rate cap. Reportedly, Congress is now considering to widen the cap to a more popular 2 percentage point.

The growth of 15-year mortgages

Mortgage pass-throughs with a maximum maturity of 15 years have gained prominence in recent years. Prior to late 1982, GNMA mobile homes were the only securities traded in the secondary market with a total issuance of less than $3 billion. In a brief period since late 1982, more than $6 billion of 15-year single family pass-throughs have been issued.

From a borrower's point of view, the most attractive element of a 15-year mortgage is its low interest costs. Pricing off a yield curve, a 15-year mortgage usually carries a mortgage rate somewhat lower than does a 30-

continued

FIGURE 3

Quarterly Conventional Mortgage Loan Originations and Market Share of Adjustable Rate Mortgages, 1982–1985

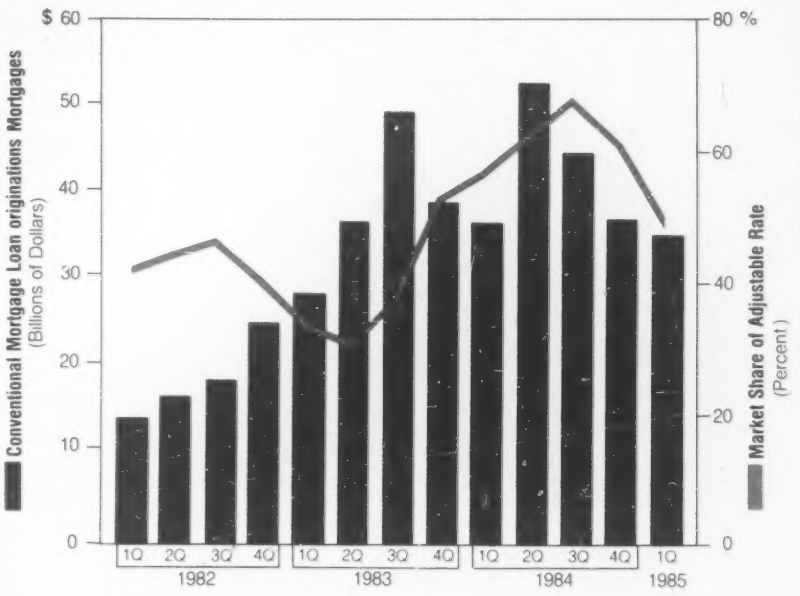


Table 3

		Originations ($ Billions)	ARMS as % Conventional Mortgage Originations
82	1	14.3	40.67%
	2	17.4	42.00
	3	18.7	44.33
	4	24.7	37.33
83	1	27.8	31.33
	2	39.4	29.67
	3	47.9	34.33
	4	39.2	53.67
84	1	37.1	58.33
	2	53.2	62.67
	3	44.8	66.67
	4	38.7	57.33
E 85	1	35.00	48.33

Source: HUD and FHLBB
E: EF Hutton Estimate

FIGURE 4

Comparison of the Monthly Payment for the Initial Year of a 15-Year and a 30-Year Mortgage ($1,000 Principal)

	10%		12%		20%	
	15 Year	30 Year	15 Year	30 Year	15 Year	30 Year
Monthly Payment ($)	10.75	8.78	12.00	10.29	17.56	16.71
Interest	8.23	8.32	9.89	9.98	16.58	16.70
Principal	2.52	0.46	2.11	0.31	0.98	0.01
Total Interest Payment ($)	934.00	2159.00	1160.00	2703.00	2161.00	5018.00
Weighted Avg. Life (Yrs)	9.30	21.60	9.70	22.50	10.80	25.10

year mortgage. Given the same mortgage rate but because of a shorter amortization period, the interest cost of a 15-year mortgage amounts to only about 40 percent of a 30-year mortgage (See Figure 4). Moreover, in a disinflationary environment, the incentive is substantially reduced to borrow with a long maturity and to pay back in cheap dollars. The disadvantage of a 15-year mortgage, however, is that it entails a monthly payment significantly higher than a 30-year mortgage. Nevertheless, for those who can qualify, the advantages of 15-year mortgages have resulted in their increased originations and the subsequent new issuance of their pass-throughs. Moreover, homebuilders have also been responsible for the rapid growth of 15-year mortgages. To facilitate sales, homebuilders often resort to interest subsidies to qualify their prospective homebuyers. To their delight, they have found that it is relatively cheaper to provide interest subsidies, called builder buydowns, through a 15-year mortgage rather than a 30-year mortgage (See Figure 5).

From an investor's perspective, 15-year pass-throughs are a welcomed product in the mortgage securities market. In the midst of heightened volatility in interest rates, investors have sought to reduce their exposure to interest rate risk by shortening the maturity of their investments. Additionally, 15-year pass-throughs created investment opportunities for certain investors whose internally or externally imposed restrictions have prevented them from participating in liquid, safe and high-yielding mortgage pass-throughs. The acceptance of 15-year pass-throughs among investors can be readily demonstrated by the narrowing yield spreads between 15-year pass-throughs and Treasuries. For example, when first issued in late 1982, yield spreads between 15-year GNMA 10½s on a bond equivalent basis and seven-year Treasuries exceeded 100 basis points. These spreads have narrowed substantially within a year to 50 basis points and have been around that level or slightly lower thereafter (See Figure 6).

The variety of mortgage-backed debt financings

Debt financings collateralized by residential mortgages dates back to

FIGURE 5

Cost Comparison of Buydowns for a 15-Year & 30-Year Mortgage (12% Mortgage Rate for $1,000 Original Principal)

	Monthly Payment Absorbed by Builders			
	Temporary (3-2-1)[a]		Permanent	
	15-Yr	30-Yr	15-Yr	30-Yr
1st Year	$1.86	$2.24	$0.64	$0.76
2nd Year	1.20	1.49	0.64	0.76
3rd Year	0.58	0.75	0.64	0.76
4th Year	—	—	0.64	0.76
Total Buydown Cost	$43.68	$53.76	$115.2	$273.6
Present Value[b]	$38.06	$46.74	$53.32	$73.89
Present Value to Prepayment[c]	—	—	$36.26	$57.86

[a]The temporary buydown assumes the builder subsidizes 3, 2, and 1 percentage point of the mortgage rate for the first three years; the permanent buydown assumes the builder subsidizes 1 percentage point of the mortgage rate for the entire life of the mortgage.

[b]Discount rate for computing present value is 12 percent.

[c]A 15-year mortgage is assumed to be prepaid at the end of the seventh year; a 30-year mortgage, the end of the 12th year.

FIGURE 6

Bond Equivalent Cash Flow Yields and Yield Spreads; 15-Year GNMA 10.5% Vs. 7-Year Treasury

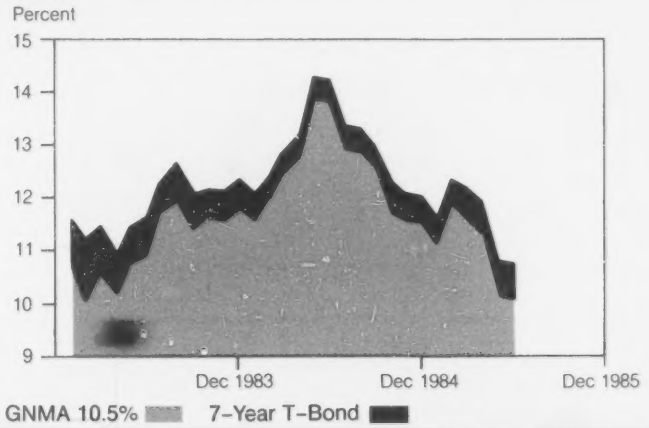


TABLE 6A

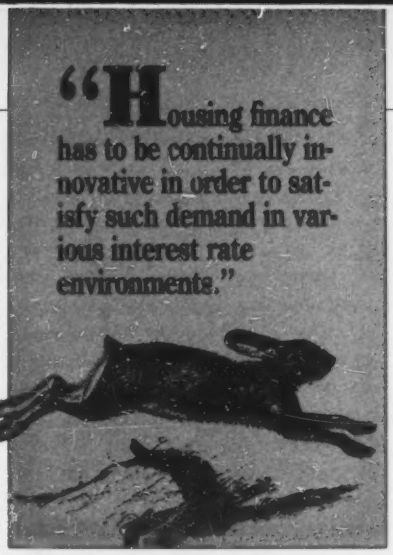
GNMA Yields; 15-Year 10.5% Securities*				Yield Spreads; 10.5% vs. 7-Year* (basis points)			
	1983	1984	1985		1983	1984	1985
J	11.63	12.07	11.60	J	94	51	53
F	11.21	12.41	12.34	F	120	44	47
M	11.47	12.88	12.17	M	95	43	58
A	10.95	13.19	11.89	A	80	44	58
M	11.47	14.30	10.79	M	70	43	64
J	11.66	14.24	10.73	J	74	42	65
J	12.32	13.37		J	58	46	
A	12.64	13.30		A	70	45	
S	12.08	12.93		S	69	39	
O	12.15	12.31		O	53	61	
N	12.13	12.07		N	56	51	
D	12.35	12.01		D	58	49	

*Bond Equivalent, Cash Flow Yields, End of Month
Source: E.F. Hutton & Company, Inc.

1977 when FHLBB authorized thrift institutions insured by Federal Savings and Loan Insurance Corporation (FSLIC) to issue mortgage-backed bonds. Like governments or corporates, mortgage-backed bonds pay interest semiannually with a full payment of principal at maturity. One important distinction, however, is that unlike governments or corporates, the credit of a mortgage-backed bond is derived from overcollateralization of the mortgages pledged by the issuer. The market value of the collateral is valued periodically and maintained at 150 percent of the outstanding bonds.

The credit enhancement through overcollateralization enables the issuer to obtain the highest credit ratings for the bonds. This arrangement allows thrifts, regardless of their size, to issue bonds and liquify part of their portfolio in an environment where prevailing interest rates are higher than those of the underlying collateral. The proceeds from the bond issuance can then be invested in higher-yielding assets. In addition, by issuing mortgage-backed bonds whose maturities generally range between five to ten years, thrifts can lengthen the average maturity of their liabilities and reduce the maturity gap on their balance sheet.

Between 1977 and 1980, before interest rates began their unprecedented surge, mortgage-backed bonds


"Housing finance has to be continually innovative in order to satisfy such demand in various interest rate environments."

were issued by many thrifts, amounting to nearly $4 billion. As interest rates escalated to historically high levels in the following two years, issuance of these bonds trickled. However, when interest rates subsided in 1983, debt financings collateralized by mortgages revived with various innovative forms. These innovative financings channeled a substantial amount of credit to the industry.

Single maturity mortgage pay-through bonds

Mortgage pay-through bonds are also called "builder bonds" because their primary issuers are homebuilders. They were first issued in late 1981 when thrift institutions were disintermediated by the high levels of interest rates. Large builders confronted with a shortage of mortgage credit resorted to this type of mortgage-backed bonds to provide financing for homebuyers.

In essence, pay-through bonds are collateralized by a pool of GNMAs. To a certain extent, recent issues have also used FNMAs, FHLMC PCs and conventional loans as collateral. Because of the quality of the collateral, the bonds have been rated AAA by the S&P's (Standard and Poor's) or Moody's. Interest payments as reflected by the coupon of the bonds are paid monthly to the bond holders. The excess cash flow after payments of interest on the bonds are deposited by the trustee to the redemption fund. To the extent funds are available in the redemption fund, the issuer is obligated to redeem the bonds at par on request at any time from the bond holders. After these redemptions, if funds remain available, the issuer is obligated to make mandatory redemption so that on the aggregate the monthly payment generated from the collateral is equal to the total monthly payment to the bond holders. Often times the issuer, at its sole option, can also redeem all the bonds after a certain period of issuance.

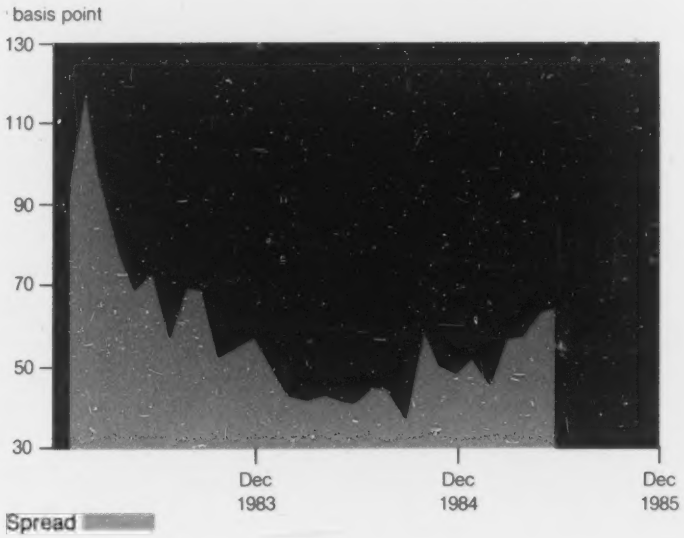
Pay-through bonds differ from the traditional mortgage-backed bonds in that the former is a self-amortized instrument with an uncertain maturity whereas the latter is not self-amortized with a definite maturity. While pay-through bonds are, in essence, collateralized by GNMAs, mortgage-backed bonds are usually secured by conventional mortgages. Both are AAA-rated debt obligations of the issuer. However, the credit enhancement for pay-through bonds is essentially the cash flow generated from the collateral. For mortgage-backed bonds, it is the 150 percent overcollateralization.

From a homebuilder's point of view, one clear advantage of issuing pay-through bonds has been the "installment sale" tax treatment. Under this treatment, the current tax laws allow the builder—who is also the bond issuer providing the financing to the homebuyers—to allocate to future years the bulk of the current tax liabilities on gains from home sales. The allocation is proportionate to the amortization schedule of the bond collat-

continued

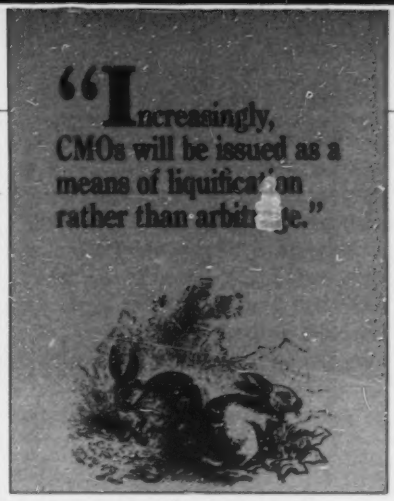
FIGURE 6B

Yield Spreads



eral plus prepayments. In other words, for the year the homes are sold, the builder's tax burden on the gains is limited to the principal amortization of the financing plus prepayments. Because these amount to only a small portion of the total financing in early years, the builder can postpone a substantial amount of taxable gains to future years. Another advantage of pay-through bonds is that the size of the bond offering is usually small, averaging about $20 million. Because of this size, the bond financing can be easily executed without significant exposure to interest rate movement.

Pay-through bonds are offered primarily to individual investors. The minimum denomination of the bonds is $1,000 and their offering spreads on a bond equivalent basis generally range between approximately 20 to 50 basis points, over 10-year Treasuries. These features coupled with the monthly interest payment make the bonds attractive to individual investors. Institutional investors, however, rarely purchase pay-through bonds because their yields are substantially below other alternative investments. Also, pay-through bonds, as pass-throughs, lack call protection for investors in a declining interest rate environment. Furthermore, in such an environment, the bonds rarely trade over par due to the mandatory redemption requirements.



Multimaturity collateralized mortgage obligations

Collateralized mortgage obligations, first issued by FHLMC in June 1983, have grown to be a major force in the mortgage securities market. Conceptually, with the exception of multiple maturities, CMOs are not much different from pay-through bonds. The cash flow generated from the collateral is the sole source to support the credit and to pay the interest and principal of the obligation. The multiple maturity structure is utilized to instill some certainty into the cash flow of the obligation. Because of various social and demographic reasons, some mortgages are prepaid faster than others. Even given the same economic environment, mortgages carrying the same interest rate would have different prepayment experience. Capitalized on the variation of prepayments, a CMO is offered assuming a certain prepayment speed of the mortgage collateral. Based on this speed, several maturities of the obligation are offered. Investors of the shortest maturity will first receive the scheduled payment of interest and principal plus all the unscheduled prepayment up to a predetermined portion of the obligation. Until that portion of the obligation is completely paid off, investors of longer maturities will receive only the stated interest on the obligation. This structure provides investors, particularly those of longer maturities, with more certainty and therefore, controls a certain part of the prepayment risk. Because any unscheduled prepayments will first be received by the shortest maturity investors, they, in fact, absorb the prepayment risk for the longer maturity investors.

Since June 1983, close to $22 billion of CMOs have been issued (See Figure 7). While FHLMC pioneered CMOs with conventional whole loans as collateral, approximately 40 percent of

continued

FIGURE 7

Issuance of Collateralized Mortgage Obligations By Issuer, Type of Collateral, Maturity Class and Offering Yield Spread, June 1983 - June 1985

		Dollars (millions)	Percent of Total**	Number of Issues
Parent of Issuer				
FHLMC		$ 4,869	22.2%	7
Investment Bankers		7,377	33.6	22
Home Builders		4,459	20.3	33
Mortgage Bankers		1,678	7.6	9
Insurance Companies		1,522	6.9	2
Commercial Banks		500	2.3	1
S&Ls		1,547	7.0	7
	Total	21,950	100.0	81
Collateral				
GNMAs		$ 8,808	40.1%	38
Conventional Mtge Loans		6,231	28.4	11
FNMAs		350	1.6	2
FHLMC PCs		728	3.3	4
Mixed Collateral		5,833	26.6	26
	Total	21,950	100.0	81
Maturity Class				
Three		$ 2,804	12.8%	10
Four		16,411	74.8	63
Five		1,150	5.2	4
Six or More		1,585	7.2	4
	Total	21,950	100.0	81

CMO Offering Yield Spread over Comparable-Maturity Treasuries (in basis points)

Average Life of Maturity Class (years)	Comparable-Maturity Treasuries (years)	Spread over Comparable-Maturity Treasuries (basis points)			
		Avg.	High	Low	Standard Deviation
less than 3.5	2	53	92	15	14
3.6 - 6.0	5	64	104	25	14
6.1 - 8.5	7	73	121	37	17
8.6 - 15.0	10	88	135	14	18
more than 15.0	20	110	135	75	17

**Components may not add to total due to rounding.

Source: RMJ Securities

the market used GNMAs exclusively as collateral. Whole loans constitute about 30 percent of the CMO collateral with the rest being either FHLMC PCs, FNMAs or a combination of all of the above. With the exception of FHLMC, CMOs have been issued through wholly owned finance subsidiaries. The parents of these subsidiaries have been investment bankers, homebuilders, mortgage bankers, insurance companies, thrifts and commercial bankers.

The structure of CMOs appears to have been standardized with four maturity classes. Under different prepayment assumptions, the weighted average lives of these maturity classes range from a little over one year to nearly 20 years. They were offered at a yield spread over the yield of a comparable maturity Treasury note or bond. The average offering spreads for these maturities were in the neighborhood of 50, 60, 70, 90 and 120 basis points over two-, five- or seven-, 10- and 20-year Treasuries.

During the early stage of development, CMOs have been issued basically to arbitrage the yield differentials between pass-throughs and Treasuries. Investment bankers, mortgage bankers or builders actually purchased pass-throughs in the open market (mainly GNMAs) as collateral and then issued CMOs. By pricing the various maturity classes to a specific section of the positively sloped Treasury yield curve, CMOs were sold at a significantly narrower spread to various shorter-maturity Treasuries than three between pass-throughs and 10-year Treasuries. This arbitrage profit was one important factor responsible for the fast growth of the CMO market.

Despite the large issuance volume, a full-scale secondary market trading of CMOs has yet developed. One of the crucial elements in structuring, pricing and trading CMOs has been the prepayment assumption for the collateral. Because all the existing CMOs were structured under various prepayment assumptions, it handicapped the development of an efficient secondary market of CMOs. In mid-June, the Public Securities Association announced a formula to standardize the prepayment assumption for CMOs.

This formula, designed to provide a consistent basis for trading CMOs, uses a 0.2 percent prepayment rate for the first month of the mortgage collateral. The prepayment rate will then increase by 2/10 of a percentage point until the 30th month. Beginning with the 31st month and thereafter, the monthly prepayment rate will remain constant at an annual rate of 6 percent. Effective July 1, this formula, dubbed "PSA experience," became mandatory for all future issuance of CMOs.

"As the mortgage securitizing process continues to mature, more multifamily and commercial mortgages will be pooled for pass-throughs."

Collateralized commercial paper

Commercial paper is a short-term unsecured promissory note issued on a discount basis by mostly corporations with the highest credit ratings. As a practical matter, commercial paper is generally issued with a 30-day maturity, although the maximum maturity can be as long as 270 days. Issuers of commercial paper usually fund the maturing paper by rolling it over—selling new paper with a similar maturity and use the proceeds to pay off the maturing one. Because of the short maturity range, and the fact that the proceeds are not reinvested in assets with longer than a five-year maturity, commercial paper is exempted from registration with the Securities Exchange Commission. In the past several years, commercial paper has experienced a tremendous rate of growth with current outstanding balance exceeding $250 billion.

For thrifts, commercial paper has not been a major source of financing, although in January 1979, FHLBB has already issued regulations allowing FSLIC-insured savings and loan associations to issue commercial paper. In March 1980, Federal Deposit Insurance Corporation gave the same permission to insured mutual savings banks. These regulatory actions, however, motivated only few thrifts to rely on commercial paper as a funding source. By 1981, outstanding thrift commercial paper amounted to only a little more than $300 million. In fact, during the next two years, the outstanding commercial paper balance trickled to less than $100 million. One of the reasons for lackluster issuance of thrift commercial paper is obviously the credit rating of the potential issuers. Recent utilization of mortgages or mortgage pass-throughs as collateral for borrowings, however, has provided the needed credit enhancement for the issuer and it may vitalize thrift commercial paper.

There are several requirements in order for collateralized commercial paper to be rated A-1+ by S&P and P-1 by Moody's. First, the mortgage collateral that is pledged to a trustee has to be of high quality such as GNMAs, FNMAs, FHLMC PCs or Treasuries. Second, there has to be a level of overcollateralization, depending on the frequency of the collateral is marked to market. For a weekly market valuation, the level of overcollateralization is 110 percent for Treasuries, 125 percent for GNMAs and 135 percent for FNMAs and FHLMC PCs. For a monthly valuation, the ratios are slightly higher for mortgage pass-throughs: 133 percent for GNMAs and 140 percent for FNMAs and FHLMC PCs, respectively. Third, the issuer has to obtain a revolving credit agreement from a similarly rated commercial bank. The credit line has to cover at least the balance of the commercial paper maturing within any 14-day period. The purpose of the credit line is that, in the event of liquidating the collateral, it can be used to repay the maturing paper. As an alternative to the credit line support, some commercial paper has utilized surety bonds issued by insurance companies.

Commercial paper is a sizable and liquid market. For thrift institutions, it is possible to place collateralized commercial paper with a rate approximately 10 basis points over the H-15 commercial paper index published by

continued

the Federal Reserve System. Over the past year that rate has been almost consistently 150 basis points below the prime rate. Conceptually, thrifts can use commercial paper to fund their construction loans or to finance their secondary mortgage market operations such as warehousing newly originated mortgages. Because both construction loans and warehousing credit are priced substantially above the prime rate, commercial paper financing will prove to be extremely cost effective for thrifts.

Controlled adjustable rate or money market preferred stock

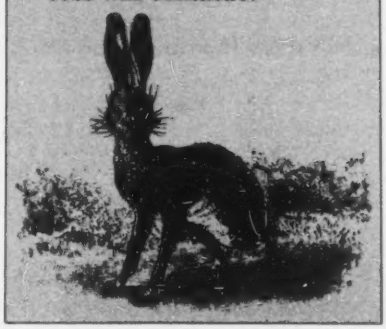
An additional area where mortgages have been used as assets to support financings is adjustable rate preferred stock. Controlled adjustable rate preferred stock (CARPS) has recently been issued by thrift institutions through their finance subsidiaries. Because the dividend paid on the preferred stock is not tax deductible, one critical consideration in issuing a CARPS is that the thrift has substantial net operating loss carry forwards.

Other important elements in structuring a CARPS include: First, the subsidiary's mortgage assets will not be consolidated in the event of insolvency of the parent. Second, as in the case of CMOs, at least 55 percent of the subsidiary's assets have to be either whole loans or whole pools of mortgage pass-throughs. Third, the dividend paid on the stock must be taxed as such and corporate investors may exclude 85 percent of the stock's dividends from their taxable income.

Fourth, depending on the type and the frequency of evaluation, the market value of the assets at the subsidiary is required to be valued between 130 percent and 170 percent of the outstanding preferred stock. This excess market value is required so that the stock may obtain the highest rating. Also, it is needed to ensure that the cash flow generated from the assets is sufficient to pay stock dividends.

Since its debut in February 1984, more than $1 billion of CARPS has been issued. The dividend rate is initially set at a margin of approximately 75 to 200 basis points below the triple benchmark—the highest of three-month Treasury bill rate, 10- or 20-year constant maturity Treasuries. The dividend rate then is reset every three months thereafter. There are usually collars for the rate adjustment—a ceiling of 15 percent and a floor of 7 percent. While there are optional and mandatory redemption features, the stock is generally nonredeemable for the first five years. If the 85 percent tax exclusion is eliminated, the stock must be either redeemed at par plus accrued dividend or the dividend rate must be raised to reflect the absence of the tax exclusion. Furthermore, if the market value of the assets falls below a specified level, either a portion of the preferred stock must be redeemed or the parent must inject additional assets to the subsidiary so that the ratio can be raised to the original level.

"The proliferation of mortgage securities in the past several years reflected the maturing process in the securitization of residential mortgages. This process will continue."



Recently, however, money market preferred stock (MMPS) has become a more cost effective means of financing than CARPS. The key difference between the two is the dividend rate setting mechanism. Unlike the CARPS which is priced off the triple benchmark, the dividend rate on a MMPS is reset every 49 days through a "dutch auction" where all potential investors submit bids for the outstanding stock. The dividend rate bid that clears the market will become the new dividend rate for the next 49-day period.

Like mortgage-backed bonds, CARPS represents an additional alternative for thrifts to liquify and improve their lower-yielding mortgage portfolios. From the investor's point of view, CARPS is attractive because of its 85 percent tax exclusion. This feature allows thrifts to raise funds at an advantageous rate.

Implications for the future

The proliferation of mortgage securities in the past several years reflected the maturing process in the securitization of residential mortgages. This process will continue. Both the volume and the variety of mortgage securities will further proliferate. The fundamental underpinnings for the future growth in mortgage securities is the potentially strong demographic demand for housing. Housing finance has to be continually innovative in order to satisfy such demand in various interest rate environments.

For the balance of this decade, annual originations of one- to four-family

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mortgages could well exceed the $200 billion mark established in the past two years. Depending on the level of interest rates, different types of mortgages will become the predominant housing finance instrument. They can be of fixed-rate or adjustable rate with either a 15- or 30-year maturity. In any event, an increasing portion of these mortgages will be securitized through swap programs at FNMA or FHLMC. Moreover, it can also be expected that conventional mortgages with loan amount exceeding the agency limitation will be securitized by private entities. Last year's enactment of the Secondary Mortgage Market Enhancement Act has greatly facilitated the private sector to participate in issuing and guaranteeing mortgage-backed securities.

As the mortgage securitizing process continues to mature, more multifamily and commercial mortgages will be pooled for pass-throughs. Moreover, the technique of pooling loans for pass-through securities does not have to be confined to mortgages. In fact, automobile loans and leased notes have already been pooled and sold to investors in a pass-through format. Further proliferation of pass-throughs is likely to include various types of loans with a scheduled cash flow pattern.

"With the establishment of the three necessary ingredients—volume, standardization and generally accepted pricing mechanism—a large issuance of ARM securities can be expected in the near future."

Portfolio lenders such as thrifts, commercial banks and insurance companies will step up their efforts in portfolio restructuring. They will liquify and upgrade the earnings of their mortgage portfolios through various mortgage collateralized debt financings. Increasingly, CMOs will be issued as a means of liquification rather than arbitrage. In the event that the new tax laws repeal the installment sale tax treatment for builder bonds, builders are likely to continue issuing these bonds, although with much reduced profitability. Depending on the financing structure, builder bonds will continue to be offered in single and multimaturity.

Mortgage financings have recently become increasingly innovative. All participants in the mortgage market—borrowers, lenders and investors alike—have all developed the needed sophistication in understanding the innovative mortgages and mortgage-backed securities. In light of this development, it can be expected that the relative value of mortgage products will continue to improve. □

[1] Shortly after the commencement, the majority of GNMAs issued had been "fully modified" pass-throughs. Under this program, scheduled payments of principal and interest are to be paid to investors "whether or not" they are collected by the issuer/servicers. Prepayments and foreclosure proceeds are passed along to investors "as received." For a detailed description of GNMA, FNMA and FHLMC guaranteed pass-through programs, see Joseph Hu, "The Revolution in Securitizing Mortgage-Backed Securities," Summer 1984, *Real Estate Review*.

[2] For a detailed discussion of ARMs and their recent popularity in the mortgage market, see "Adjustable Rate Mortgages" and "Housing Finance in a Deregulated Environment" by Joseph Hu in *The Handbook of Mortgage-Backed Securities*. Edited by Frank Fabozzi. Probus Publishing. Chicago, Illinois, 1985.

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MORTGAGE MARKET TRENDS

The overall health of the economy has once again become a heated topic of conversation among market prognosticators. The financial markets are now increasingly sensitive to economic signals that tend to demonstrate the potential for fundamental changes in the long-term course of interest rates. A substantial portion of this intensified focus on the factors underlying GNP growth relates to the Federal Reserve Board (Fed). Throughout the year, the Fed has apparently been emphasizing the behavior of the economy in setting monetary policy rather than overall money growth measures and the market has been following suit. Of course, technical factors such as seasonal money demands, also continue to play an important role in short-term market perceptions. A good example was the well-received record $22 billion Treasury refunding that occurred the first week in August. The ever present technical considerations notwithstanding, the reactions of the financial market's response to expected Fed actions relating to changes in GNP growth, rather than money growth per se, will form the foundation for future movements in interest rate levels.

The Commerce Department projection of 3.1 percent for second quarter GNP growth incorporated in their "flash estimate," was subsequently revised down to 1.7 percent, close to our expectation of around 2 percent. Because the "flash" is computed using incomplete data, this downward revision of almost 50 percent is not altogether surprising. The revised figure was essentially the result of the two components that have been acting as a drag on the economy since mid-1984, net exports and inventory investment. Alternatively, the demand component as measured by final sales showed a healthy 5 percent annual increase from first quarter levels and could set the stage for moderately rising business inventory investment in the coming months.

The wild card continues to be the trade sector and the degree to which foreign goods overshadow domestic investment. If the foreign exchange value of the dollar can maintain a neutral or moderately downward path, domestic investment and production should show a pick up in the near term. If not, businesses will have very little incentive to invest in inventories that they believe will go unsold.

Contributing to the presently uncertain outlook, recently released economic indicators have been mixed. Auto sales in July were flat from June levels, pointing to moderating consumer spending in the third quarter. An early estimate for retail sales buttresses the auto sales statistics, showing little change in July from June levels, although, in fact, it was the first actual increase in four months for this measure. This reflects present consumer debt burden levels, coupled with the depletion of early summer tax refunds that were adding to personal income measures.

Business fixed-investment rebounded sharply in the second quarter, up at a 13.6 percent annual rate, but a third quarter rise of this magnitude seems unlikely. Capacity utilization rates, now hovering around 81 percent are not being pressed by manufacturing output. This is due to the fact that industrial production has remained essentially flat all year, now up less than 2 percent from a year ago. Although interest rates are relatively low, a diversion of orders for plant and equipment manufactured overseas has kept spending in this category from rising sharply higher. June orders for factory goods showed a healthy 1.9 percent monthly increase and comes on the heels of a strong 2.1 percent rise in May. Indeed, this may signal a modest turnaround in inventory investment during the third quarter relative to the second quarter. This series will bear watching in the next few months, however, before reaching a definite conclusion as to its actual trend.

In line with the upturn in economic growth from the first to the second quarter, interest rates have moved up somewhat as well. From mid-June to the first week in August, yields on short-term Treasury bills have risen about 40 basis points, with long-term securities up slightly more. The initial stimulus to this run-up was the flash GNP "estimate" in June of 3.1 percent and was shortly thereafter followed by a slight downturn. Interest rates in mid-to-late June then trended modestly upwards, based on the perception that the Fed has moderated its accommodative monetary policy and is awaiting further information on overall economic growth. The potential strength exhibited by final sales in the second quarter, coupled with a rise in factory orders for May and June plus the up tick in July retail sales, could be perceived as the result of nine months of high money stock growth. If so, then further declines in interest rates, while they could occur for technical reasons, would be minor and brief. Large or continuous movements in interest rates in either direction, however, are unlikely in the coming months unless there is a major external shock to the financial markets.

Because interest rate changes should be minor, investment in housing will continue to play an important role in the economy throughout the remainder of the year. While a good portion of housing-related demand has already been satisfied, the potential for upward movements in mortgage interest rates could induce undecided homebuyers to accelerate their purchase plans. Thus, sales of existing homes will remain near the 3 million mark during the year, with new homes sales hovering around 650,000. Fixed-rate mortgages may lose some market share to adjustables if rates advance, but total originations will remain firm.

Gregory Luetscher
Economist
August 15, 1985

HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rate Total	HOUSING STARTS: Seasonally Adjusted Annual Rate 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rate 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 4+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 5+ Units
1985												
FEB	95	68	27	1,647	1,231	416	101	63	38	1,624	1,041	583
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	118	57	1,933	1,268	665	160	105	55	1,704	1,066	638
MAY	170	118	52	1,681	1,148	533	171	109	62	1,778	1,064	714
JUN	162	110	52	1,694	1,131	563	156	100	56	1,712	1,091	621
JUL$_p$	**160**	**113**	**47**	**1,654**	**1,133**	**521**	**158**	**104**	**54**	**1,696**	**1,093**	**603**
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
7 MONTHS[8]												
1985	1,014	696	318				1,002	631	371			
1984	1,076	741	335				1,041	685	356			
1983	968	690	278				924	611	313			
1982	558	399	159				528	335	193			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS: Actual North East	STARTS: Actual Mid-West	STARTS: Actual South	STARTS: Actual West	STARTS: Seasonally Adjusted Annual Rate North East	STARTS: Seasonally Adjusted Annual Rate Mid-West	STARTS: Seasonally Adjusted Annual Rate South	STARTS: Seasonally Adjusted Annual Rate West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate West
1985																
FEB	7	6	50	31	260	185	745	457	11	7	50	33	266	187	678	493
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	26	22	80	48	293	247	874	519	24	22	71	43	258	223	760	463
MAY	25	29	72	45	237	257	744	443	28	27	72	45	267	263	784	464
JUN	28	26	68	41	290	233	744	427	26	25	64	42	275	254	743	440
JUL$_p$	**22**	**24**	**71**	**44**	**200**	**218**	**791**	**445**	**23**	**26**	**67**	**42**	**236**	**257**	**760**	**443**
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
7 MONTHS[8]																
1985	133	132	471	278					147	132	446	277				
1984	106	140	556	275					110	124	516	291				
1983	92	118	537	221					89	101	511	223				
1982	55	76	319	108					53	63	292	119				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands) EXISTING HOUSES[1]	NEW HOMES Sold	NEW HOMES Available For Sale	NEW HOMES Months Supply at Current Rate	VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions) Seasonally Adjusted Annual Rate Total	1 Unit	2+ Units	Non-res.	CONSTRUCTION STATUS (Units in thousands) Under Construction Total	1-4 Units	5+ Units	Completions Total	1-4 Units	5+ Units
1985														
JAN	190	48	356	6.8	$198,623	$82,457	$30,558	$85,608	1,031	598	433	119	84	35
FEB	193	55	360	6.5	197,111	80,919	29,401	86,791	1,001	585	416	121	79	42
MAR	263	67	357	6.4	196,047	81,549	29,286	85,212	1,020	602	418	125	83	42
APR	283	59	359	6.8	203,684	84,000	28,500	91,184	1,063	624	439	127	91	36
MAY	297	64	359	6.5	201,848	83,706	28,579	89,563	1,100	656	444	132	84	47
JUN[p]	297	58	359	6.6	200,342	82,910	30,196	87,236	1,105	659	446	157	106	51
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
6 MONTHS														
1985	1,523	354										781	528	253
1984	1,494	351										767	520	247
1983	1,337	329										566	414	152
1982	966	195										455	311	144

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	1-4 UNITS Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$20,860	$ 3,050	$ 9,654	$ 7,278	$ 878	$ 13,369	$ 2,400	$ 6,889	$ 4,023	$ 57
OCT	23,075	3,700	9,643	8,806	926	15,217	3,110	7,188	4,813	106
NOV	21,562	3,370	9,219	7,818	1,155	13,639	3,090	6,445	4,060	44
DEC	28,852	5,250	10,619	9,414	3,569	15,873	4,090	6,914	4,789	80
1985										
JAN	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
FEB[p]	n.a.	n.a.	7,941	7,351	1,396	n.a.	n.a.	5,618	3,555	54
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	297,406	53,160	129,482	97,776	16,988	196,139	44,500	96,187	54,626	826
2 MONTH										
1985	n.a.	n.a.	15,863	14,675	2,330	n.a.	n.a.	11,340	7,483	102
1984	41,319	9,180	15,539	14,878	1,722	27,059	7,540	11,563	7,866	90
1983	32,151	9,160	9,845	11,358	1,788	22,264	7,860	7,567	6,739	98
1982	13,571	4,170	5,010	3,015	1,376	9,147	3,320	4,072	1,697	58

LOANS CLOSED (Cont'd.)

LONG-TERM COMMITMENT ACTIVITY

By Type of Institution

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$ 1,516	$ 70	$ 1,083	$ 339	$ 24	$ 5,975	$ 580	$ 1,682	$ 2,916	$ 797
OCT	1,341	0	880	373	88	6,517	590	1,575	3,620	732
NOV	1,664	0	1,098	455	111	6,259	280	1,676	3,303	1,000
DEC	2,488	80	1,488	488	432	10,491	1,080	2,217	4,137	3,057
1985										
JAN	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
FEB	n.a.	n.a.	923	395	133	n.a.	n.a.	1,400	3,400	1,209
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	22,125	1,980	13,160	5,519	1,466	79,142	6,680	20,135	37,631	14,696
2 MONTH										
1985	n.a.	n.a.	1,614	795	235	n.a.	n.a.	2,909	6,397	1,993
1984	3,753	890	1,677	991	195	10,507	750	2,299	6,021	1,437
1983	2,625	820	912	765	128	7,262	480	1,366	3,854	1,562
1982	1,031	210	414	327	80	3,563	810	524	991	1,238

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
SEPT	$ 17,278	$ 2,910	$ 9,852	$ 3,021	$ 1,495	$90,837	$ 8,150	$51,666	$17,591	$13,430
OCT	19,331	3,910	10,578	3,349	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,830	3,430	11,549	3,317	2,534	92,434	8,190	51,651	19,389	15,204
DEC	22,227	5,480	10,872	3,810	2,065	91,093	8,700	50,483	17,905	14,005
JAN	n.a.	n.a.	9,207	3,548	1,562	n.a.	n.a.	49,556	16,711	14,123
FEB	n.a.	n.a.	10,564	3,624	2,602	n.a.	n.a.	50,998	16,994	15,285
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	264,193	50,100	146,184	47,065	20,844					
2 MONTH										
1985	n.a.	n.a.	19,971	7,172	4,164					
1984	37,648	8,640	19,650	6,405	2,953					
1983	32,580	13,470	12,826	4,014	2,270					
1982	14,717	6,020	5,105	2,874	718					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
FEB	138	59	13	66	73	4,787	10	579	13	867	50	3,341
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	188	67	19	102	110	7,103	35	2,007	14	944	61	4,152
MAY	189	70	19	100	98	6,429	20	1,185	13	868	65	4,376
JUN	n.a.	n.a.	19	93	n.a.	n.a.	n.a.	n.a.	14	961	63	4,251
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
6 MONTHS												
1985	821*	317*	98	518	465*	30,116*	112*	6,400*	78	5,189	352	23,739
1984	798*	198*	105	637	570*	36,353*	102*	5,459*	115	7,450	471	31,351
1983	755*	364*	142	366	400*	23,253*	125*	5,959*	118	7,476	236	14,895
1982	292*	115*	54	200	180*	9,902*	40*	1,656*	40	2,287	158	8,802

*Five-month totals

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
JAN	1,300	1,943	36,915	913	3,030	4,264	2,197	1,984	4,573	2,654
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	2,074	1,703	41,613	1,004	3,375	3,701	3,591	4,240	6,073	3,595
JUN	1,593	1,904	42,755	1,519	4,101	5,172	4,106	3,281	3,324	3,609
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
6 MONTHS										
1985	10,419	10,880	—	10,495	22,120	24,353	18,574	17,018	24,139	17,888
1984	10,117	9,185	—	8,556	10,564	11,108	8,271	7,308	19,004	15,264
1983	9,037	8,988	—	7,388	11,601	12,130	11,687	11,043	37,950	25,781
1982	9,511	4,537	—	3,876	15,085	15,098	9,277	9,240	11,386	6,756

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY FHA NEW[4]	FHA OPINION SURVEY CONVENTIONAL New	FHA OPINION SURVEY CONVENTIONAL Existing	FHLBB SURVEY CONVENTIONAL New	FHLBB SURVEY CONVENTIONAL Existing	FNMA Mandatory Delivery Yields ARM (5 yr. Treas.)	FNMA Mandatory Delivery Yields Conv.	APARTMENTS[5]
1985								
FEB	13.27%	13.06%	13.06%	12.21%	12.39%	12.238%	12.675%	14.54%
MAR	13.43	13.26	13.28	11.92	12.19	12.860	13.070	14.60
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.569	14.16
MAY	12.28	12.49	12.50	12.06	12.09	12.038	12.281	13.34
JUN	11.89	12.06	12.06	11.75	11.76	11.125	11.600	13.38
JUL	n.a.	n.a.	n.a.	11.38	11.48	11.025	11.706	13.22

YEAR AND MONTH	CURRENT SECONDARY MARKET YIELDS GNMA[6]	FNMA[6]	FHLMC[6]	SELECTED SECURITIES A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
FEB	12.42%	—	—	12.76%	11.51%	8.39%	8.54%
MAR	12.77	—	—	13.17	11.86	8.90	8.90
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	11.89	—	—	12.25	10.85	7.65	7.83
JUN	11.20	11.20	11.23	11.62	10.16	7.09	7.35
JUL	11.26	11.30	11.27	11.64	10.31	7.20	7.56

YEAR AND MONTH	SPREADS (Basis Points) FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
FEB	51	91	—	—
MAR	26	91	—	—
APR	22	101	—	—
MAY	3	104	—	—
JUN	25	104	104	107
JUL	n.a.	95	99	96

n.a —Not available p—Preliminary

[1] From the National Association of Realtors' Existing Home Sales" series

[2] Mutual Savings Banks and Commercial Banks

[3] FHA applications received includes the Direct Endorsement Program starting in 1984

[4] Secondary market gross yields

[5] Federal Home Loan Mortgage Corp. Existing Construction only

[6] Securities for 30 day delivery

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds

[8] Year-to-date seasonally adjusted series not calculated

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	6[illegible]0	6,940	270	1,050
DEC	5,480	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH		1-4 Units				5+ Units			
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-res.[3]
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4] 1-4 Units	COVERAGE[4] 5+ Units	COVERAGE[4] Non-[3] res.	SERVICING VOLUME[1] Total	SERVICING VOLUME[1] 1-4 Units	SERVICING VOLUME[1] 5+ Units	SERVICING VOLUME[1] Non.[3] res.	NOTES PAYABLE[1] (End of Month Balances) Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	96	88	385,270	321,620	33,110	30,540	42,280	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED Total	1-4 Units	5+ Units	Non-[3] res.	DISBURSEMENTS DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	END OF MONTH INVENTORY Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	630
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	END OF MONTH BALANCES Total	1-4 Units	5+ Units	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes [1] All dollar amounts are in millions.
[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.
[3] Series labeled non-residential are also inclusive of farm data.
[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.
[5] Year-to-date seasonally adjusted series not calculated.

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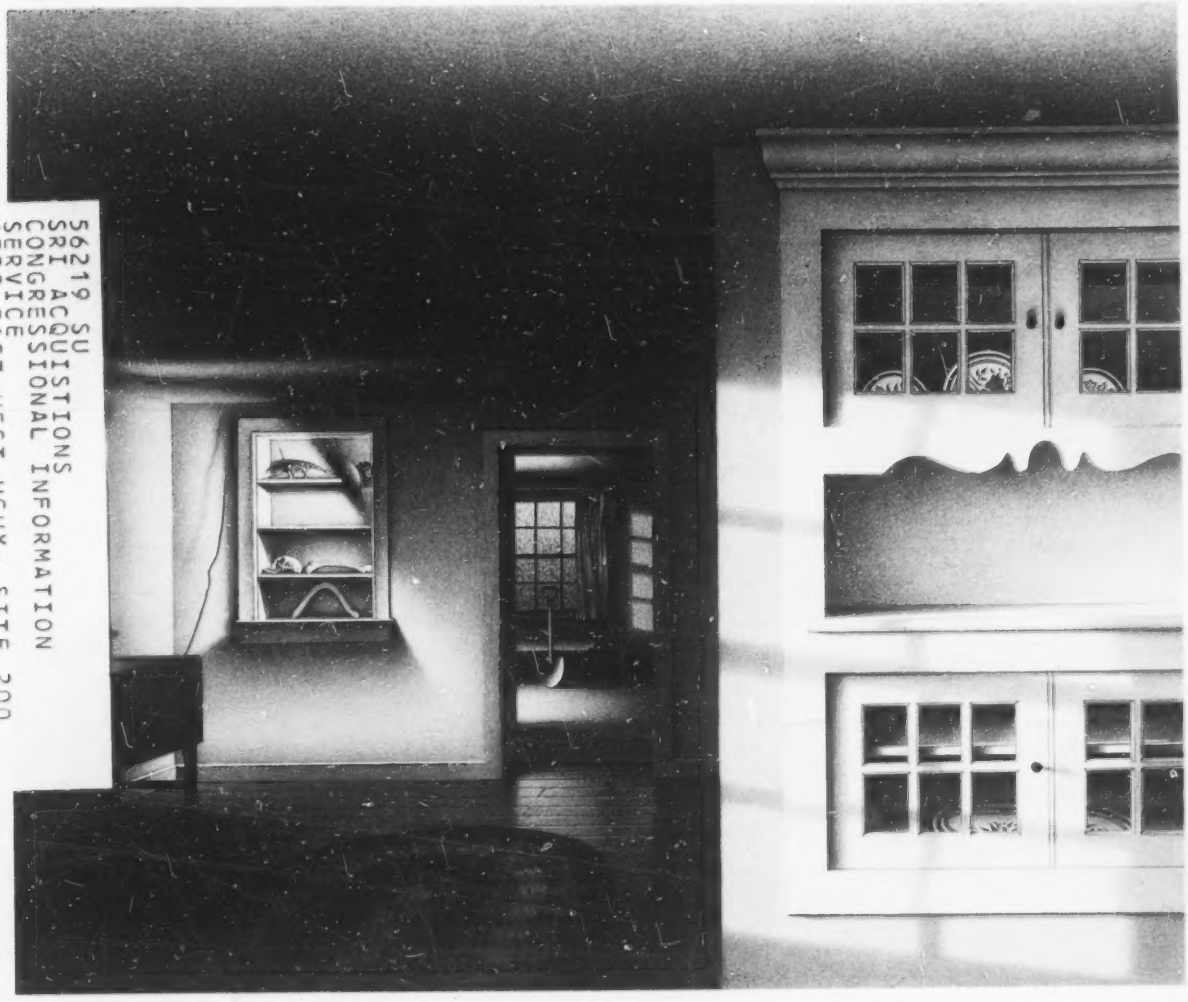
The Magazine of Real Estate Finance

MORTGAGE BANKING

OCTOBER 1985



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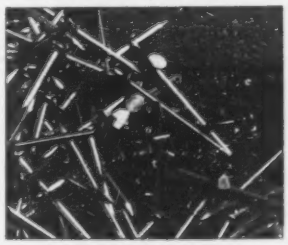
MORTGAGE BANKING

VOLUME 46 NO. 1
OCTOBER 1985

ARTICLES

PAGE 12
PRESERVING INVESTMENTS THROUGH CAREFUL DRAFTING
Bruce J. Bergman
This article explains how the terms of a mortgage document can play a significant role in the outcome of a foreclosure case. More time should be devoted to drafting mortgages carefully so that the language contained in the documents is clear and precise. In the end it will help to preserve investments and make foreclosure actions less traumatic.

PAGE 22
EXPLOITING TRACT LENDING
Joseph Garrett
Because wholesale and retail lending have been the dominant sources of production in

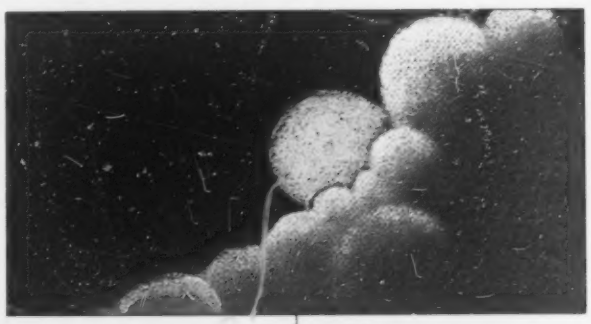


the real estate finance industry, builder business or tract lending has been treated as an orphan. The author cites many advantages lenders can consider when evaluating the builder business.

PAGE 37
COMMERCIAL MORTGAGES IN THE SECONDARY MARKET
Joseph Philip Forte
The continued expansion of the residential secondary mortgage market has market observers anticipating the development of a commercial secondary mortgage market. This article explores the many factors that would have a significant effect on the development of the secondary market in commercial real estate loans.

PAGE 48
ADDING VARIETY TO THE PRODUCT MIX
Jess Lederman
Sears' research has indicated that there are substantial advantages to investing in ARMs as securities rather than whole loans. This article details how the Sears ARM program developed and the progress it has made. Recently, Sears has enhanced its ARM program to include negotiated transactions.

PAGE 60
THE HUMAN TOUCH IN ORIGINATION: REAPING THE REWARDS
Barry J. Piesner
The ability to adjust to changes in personnel, product, consumer awareness, rates, the economy, and the value of the dollar, will determine the ultimate long-term success of a mortgage origination company. This author believes there is no reason why origination operations cannot be profitable.



PAGE 76
SHELTER '85
This show celebrates the creative side of the mortgage business and highlights the industry and the people who have earned this country the distinction of being the best-housed nation on Earth. The winning pieces of art from the show are presented here.

PAGE 88
TOWARD MORE AGGRESSIVE CONSUMER CONTACT
William H. Evans, Jr.
Customers buy only from loan representatives who are trained to recognize and act upon the opportunities that marketing campaigns may create. If loan originators cannot sell their products because they are improperly trained, sophisticated product planning or direct consumer contact are useless.

PAGE 102
WEATHERING THE EFFECTS: TAX REFORM AND RESIDENTIAL REAL ESTATE INVESTMENTS
Dr. Ronald E. Copley
This article examines the effects that President Reagan's tax reform proposal would have on the profitability of investments in moderately priced residential real estate.

PAGE 109
THE LAST WORD (IMPLICATIONS OF THE *AT-RISK* RULES)
Jerrol L. McLeod and Thomas M. Murray
Being at-risk for tax purposes is not necessarily the same thing as being at-risk economically. Developers can comply with the new at-risk rules without undue fear of substantial economic loss if they are honest and accurate in appraising projects and if they take some preventative measures.

DEPARTMENTS

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HOUSING ACTIVITY

RESIDENTIAL STRUCTURES, BY UNIT TYPE

(Units in thousands)

YEAR AND MONTH	HOUSING STARTS: Actual Total	HOUSING STARTS: Actual 1-4 Units	HOUSING STARTS: Actual 5+ Units	HOUSING STARTS: Seasonally Adjusted Annual Rate Total	HOUSING STARTS: Seasonally Adjusted Annual Rate 1-4 Units	HOUSING STARTS: Seasonally Adjusted Annual Rate 5+ Units	PERMITS 17,000 ISSUING PLACES: Actual Total	PERMITS 17,000 ISSUING PLACES: Actual 1-4 Units	PERMITS 17,000 ISSUING PLACES: Actual 5+ Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Total	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 1-4 Units	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate 5+ Units
1985												
MAR	145	101	44	1,889	1,274	615	144	96	48	1,741	1,131	610
APR	175	118	57	1,933	1,268	665	160	105	55	1,704	1,066	638
MAY	170	118	52	1,681	1,148	533	171	109	62	1,778	1,064	714
JUN	163	110	53	1,701	1,123	578	156	100	56	1,712	1,091	621
JUL	160	114	46	1,647	1,139	508	158	103	55	1,694	1,088	606
AUGp	161	110	51	1,749	1,178	571	157	101	56	1,754	1,112	642
1983 TOTAL	1,703	1,181	522				1,605	1,035	570			
1984 TOTAL	1,750	1,206	544				1,682	1,065	617			
8 MONTHS												
1985	1,176	807	369				1,159	747	412			
1984	1,223	843	380				1,183	763	420			
1983	1,145	810	335				1,079	709	370			
1982	654	469	185				610	390	220			

RESIDENTIAL STRUCTURES BY REGION

(Units in thousands)

YEAR AND MONTH	STARTS: Actual North East	STARTS: Actual Mid-West	STARTS: Actual South	STARTS: Actual West	STARTS: Seasonally Adjusted Annual Rate North East	STARTS: Seasonally Adjusted Annual Rate Mid-West	STARTS: Seasonally Adjusted Annual Rate South	STARTS: Seasonally Adjusted Annual Rate West	PERMITS 17,000 ISSUING PLACES: Actual North East	PERMITS 17,000 ISSUING PLACES: Actual Mid-West	PERMITS 17,000 ISSUING PLACES: Actual South	PERMITS 17,000 ISSUING PLACES: Actual West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate North East	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate Mid-West	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate South	PERMITS 17,000 ISSUING PLACES: Seasonally Adjusted Annual Rate West
1985																
MAR	16	17	74	37	265	290	853	481	20	17	68	39	265	234	750	492
APR	26	22	80	48	293	247	874	519	24	22	71	43	258	223	760	463
MAY	25	29	72	45	237	257	744	443	28	27	72	45	267	263	784	464
JUN	27	27	67	42	284	239	737	441	26	25	64	42	275	254	743	440
JUL	22	23	70	44	201	218	782	446	23	26	66	43	238	256	754	446
AUGp	26	26	66	44	233	245	750	521	26	25	62	43	274	255	742	483
1983 TOTAL	168	218	935	382					164	188	863	390				
1984 TOTAL	204	243	866	436					201	212	812	457				
8 MONTHS																
1985	158	159	536	323					173	156	508	322				
1984	127	164	623	310					129	144	581	330				
1983	114	143	629	259					107	122	590	261				
1982	68	92	369	124					63	75	335	136				

HOUSING ACTIVITY (Cont'd.)

YEAR AND MONTH	HOUSING SALES (Units in thousands)				VALUE OF NEW CONSTRUCTION PUT IN PLACE (Dollars in millions)				CONSTRUCTION STATUS (Units in thousands)					
	EXISTING HOUSES[1]	NEW HOMES			Seasonally Adjusted Annual Rate				Under Construction			Completions		
		Sold	Available For Sale	Months Supply at Current Rate	Total	1 Unit	2+ Units	Non-res.	Total	1-4 Units	5+ Units	Total	1-4 Units	5+ Units
1985														
JAN	190	48	356	6.8	$198,623	$82,457	$30,558	$85,608	1,031	598	433	119	84	35
FEB	193	55	360	6.5	197,111	80,919	29,401	86,791	1,001	585	416	121	79	42
MAR	263	67	357	6.3	196,047	81,549	29,286	85,212	1,020	602	418	125	83	42
APR	283	60	354	6.7	203,684	84,000	28,500	91,184	1,088	643	445	127	91	36
MAY	297	65	355	6.4	201,741	83,676	28,497	89,568	1,089	644	445	132	85	47
JUN	297	63	354	6.3	198,413	82,931	29,480	86,002	1,078	634	444	162	108	54
AUG[p]	309	58	355	6.2	201,041	83,220	31,055	86,766	1,079	640	439	143	97	46
1983 TOTAL	2,719	623										1,393	1,021	372
1984 TOTAL	2,868	639										1,653	1,139	514
7 MONTHS														
1985	1,832	416										929	627	302
1984	1,761	403										902	612	290
1983	1,597	380										675	494	181
1982	1,149	226										530	366	164

LENDER ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED
By Type of Institution and By Unit Type
(Dollars in millions)

YEAR AND MONTH	TOTAL					1-4 UNITS				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
OCT	23,075	3,700	9,643	8,806	926	15,217	3,110	7,188	4,813	106
NOV	21,562	3,370	9,219	7,818	1,155	13,639	3,090	6,445	4,060	44
DEC	28,852	5,250	10,619	9,414	3,569	15,873	4,090	6,914	4,789	80
1985										
JAN	n.a.	n.a.	7,922	7,323	1,002	n.a.	n.a.	5,722	3,927	48
FEB	n.a.	n.a.	7,941	7,351	1,396	n.a.	n.a.	5,618	3,555	54
MAR[p]	n.a.	n.a.	10,681	8,350	2,042	n.a.	n.a.	7,887	4,502	91
1983 TOTAL	276,371	65,050	103,882	91,500	15,939	193,535	55,680	81,524	55,605	726
1984 TOTAL	297,406	53,160	129,482	97,776	16,988	196,139	44,500	96,187	54,626	826
3 MONTH										
1985	n.a.	n.a.	26,544	23,025	4,372	n.a.	n.a.	19,227	11,984	193
1984	65,350	13,870	25,697	22,966	2,817	42,702	11,310	18,977	12,240	193
1983	54,173	15,070	17,955	18,322	2,826	38,616	12,910	13,977	11,577	152
1982	25,465	4,920	8,170	10,204	2,171	16,199	3,630	6,698	5,774	97

LENDER ACTIVITY (Cont'd.)

LOANS CLOSED (Cont'd.)

(Dollars in millions)

YEAR AND MONTH	5+ UNITS					NONRESIDENTIAL				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
OCT	1,341	0	880	373	88	6,517	590	1,575	3,620	732
NOV	1,664	0	1,098	455	111	6,259	280	1,676	3,303	1,000
DEC	2,488	80	1,488	488	432	10,491	1,080	2,217	4,137	3,057
1985										
JAN	n.a.	n.a.	691	399	102	n.a.	n.a.	1,509	2,997	784
FEB	n.a.	n.a.	923	396	133	n.a.	n.a.	1,400	3,400	1,209
MAR$_P$	n.a.	n.a.	1,162	511	177	n.a.	n.a.	1,632	3,337	1,774
1983 TOTAL	19,443	3,840	8,521	5,485	1,597	63,393	5,530	13,837	30,410	13,616
1984 TOTAL	22,125	1,980	13,160	5,519	1,466	79,142	6,680	20,135	37,631	14,696
3 MONTH										
1985	n.a.	n.a.	2,776	1,307	412	n.a.	n.a.	4,541	9,734	3,767
1984	5,886	1,260	2,729	1,609	288	16,762	1,300	3,991	9,117	2,354
1983	3,739	890	1,589	1,050	210	11,818	1,270	2,389	5,695	2,464
1982	1,589	380	621	457	131	7,677	910	851	3,973	1,943

LOANS CLOSED (Cont'd.)

LONG-TERM COMMITMENT ACTIVITY By Type of Institution

(Dollars in millions)

YEAR AND MONTH	ISSUED DURING MONTH					OUTSTANDING				
	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.	Total	Mtg. Bankers	S&Ls	Banks[2]	Life Cos.
1984										
OCT	19,331	3,910	10,578	3,349	1,494	89,826	8,370	50,624	16,996	13,836
NOV	20,830	3,430	11,549	3,317	2,534	92,434	8,190	51,651	19,389	15,204
DEC	22,227	5,480	10,872	3,810	2,065	91,093	8,700	50,483	17,905	14,005
JAN	n.a.	n.a.	9,207	3,548	1,562	n.a.	n.a.	49,556	16,711	14,123
FEB	n.a.	n.a.	10,564	3,624	2,602	n.a.	n.a.	50,998	16,994	15,285
MAR$_P$	n.a.	n.a.	14,217	7,831	2,770	n.a.	n.a.	53,175	21,748	14,496
1983 TOTAL	260,343	81,070	123,361	38,195	17,717					
1984 TOTAL	264,193	50,100	146,184	47,065	20,844					
3 MONTH										
1985	n.a.	n.a.	33,988	15,005	6,934					
1984	63,169	13,930	32,604	10,884	5,751					
1983	54,901	21,130	23,117	7,086	3,568					
1982	24,721	10,150	8,452	4,437	1,682					

MORTGAGE INSURANCE

(Units in thousands, Dollars in millions)

YEAR AND MONTH	APPLICATIONS RECEIVED (Units)				LOANS INSURED							
	Total	FHA[3]	VA	Private	Total		FHA(203)		VA		Private	
					Units	Amt.	Units	Amt.	Units	Amt.	Units	Amt.
1985												
MAR	168	65	16	87	91	5,824	27	1,504	13	826	51	3,494
APR	188	67	19	102	110	7,103	35	2,007	14	944	61	4,152
MAY	189	70	19	100	98	6,429	20	1,185	13	868	65	4,376
JUN	192	80	19	93	112	7,330	36	2,118	14	961	62	4,251
JUL$_P$	218	93	24	101	96	6,558	11	656	16	1,104	69	4,798
1983 TOTAL	1,921	777	261	883	1,302	79,469	367	19,141	283	17,965	652	42,363
1984 TOTAL	1,862	477	180	1,205	1,345	86,777	200	10,644	199	12,730	946	63,403
7 MONTHS												
1985	1,231	490	122	619	675	44,004	159	9,174	94	6,293	422	28,537
1984	1,127	253	121	753	843	54,208	138	7,369	133	8,581	572	38,258
1983	1,144	528	170	446	640	37,739	209	10,359	138	8,700	293	18,680
1982	570	167	166	237	291	15,610	57	2,440	48	2,726	186	10,444

SECONDARY MARKET ACTIVITY

(Dollars in millions)

YEAR AND MONTH	FNMA Portfolio Comm.	FNMA Portfolio Purc.	FNMA Mortgage-Backed Securities Outstanding	FNMA Mortgage-Backed Securities Issued	FHLMC Comm. to Sell	FHLMC Comm. to Buy	FHLMC Mtg. Purc.	FHLMC Mtg. Sold	GNMA Pass-Through Securities Applications	GNMA Pass-Through Securities Issued
1985										
FEB	1,895	1,559	38,508	1,820	3,362	3,622	3,247	2,425	4,182	2,700
MAR	1,636	2,256	39,370	1,087	3,580	3,453	3,232	3,115	3,757	2,772
APR	1,921	1,515	40,952	1,856	4,672	4,141	2,201	1,973	2,230	2,558
MAY	2,074	1,703	41,613	1,004	3,375	3,701	3,591	4,240	6,073	3,595
JUN	1,593	1,904	42,755	1,519	4,101	5,172	4,106	3,281	3,324	3,609
JUL	1,583	1,819	43,931	1,527	2,714	3,247	1,925	4,385	9,066	7,551
1983 TOTAL	18,606	17,558	—	13,081	30,921	32,846	22,952	21,376	70,461	50,495
1984 TOTAL	21,008	16,722	—	13,546	30,743	32,601	21,885	20,489	36,101	27,859
7 MONTHS										
1985	12,001	12,797	—	9,726	24,834	27,611	23,200	21,403	33,225	21,747
1984	12,093	10,411	—	6,949	15,650	15,036	9,559	8,887	22,256	17,589
1983	10,235	10,346	—	9,038	15,222	16,801	13,210	11,534	43,418	30,144
1982	11,529	5,890	—	5,733	17,285	17,300	11,511	11,445	13,502	7,767

INTEREST RATES AND YIELDS

YEAR AND MONTH	1- to 4-UNIT MORTGAGES: FHA OPINION SURVEY: FHA NEW[4]	FHA OPINION SURVEY: CONVENTIONAL New	FHA OPINION SURVEY: CONVENTIONAL Existing	FHLBB SURVEY: CONVENTIONAL New	FHLBB SURVEY: CONVENTIONAL Existing	APARTMENTS[5]: FNMA Mandatory Delivery Yields ARM (5 yr. Treas.)	APARTMENTS[5]: FNMA Mandatory Delivery Yields Conv.	APARTMENTS[5]
1985								
MAR	13.43%	13.26%	13.28%	11.92%	12.19%	12.860%	13.070%	14.60%
APR	12.97	13.01	13.01	12.05	12.11	12.525	12.669	14.16
MAY	12.28	12.49	12.50	12.06	12.09	12.038	12.281	13.34
JUN	11.89	12.06	12.06	11.75	11.76	11.125	11.600	13.38
JUL	12.12	12.09	12.10	11.38	11.48	11.000	11.569	13.22
AUG	n.a.	n.a.	n.a.	11.24	11.33	11.238	11.719	13.23

CURRENT SECONDARY MARKET YIELDS

SELECTED SECURITIES

YEAR AND MONTH	GNMA[6]	FNMA[6]	FHLMC[6]	A-Rated[7] Utility	U.S. Government 10-yr.	U.S. Government 26-wk.	Prime Comm. Paper 90-119 Days
1985							
MAR	12.77%	—	—	13.17%	11.86%	8.90%	8.90%
APR	12.44	—	—	12.75	11.43	8.31	8.37
MAY	11.89	—	—	12.25	10.85	7.65	7.83
JUN	11.20	11.20	11.23	11.62	10.16	7.09	7.35
JUL	11.26	11.30	11.27	11.64	10.31	7.20	7.56
AUG	11.39	11.38	11.42	11.77	10.33	7.32	7.72

SPREADS (Basis Points)

YEAR AND MONTH	FHA New Minus A-Utility	GNMA Minus 10-Yr. Govt.	FNMA Minus 10-Yr. Govt.	FHLMC Minus 10-Yr. Govt.
1985				
MAR	26	91	—	—
APR	22	101	—	—
MAY	3	104	—	—
JUN	25	104	104	107
JUL	35	95	99	96
AUG	n.a.	106	106	109

n.a.—Not available; p—Preliminary

[1] From the National Association of Realtors "Existing Home Sales" series.

[2] Mutual Savings Banks and Commercial Banks.

[3] FHA applications received includes the Direct Endorsement Program starting in 1984.

[4] Secondary market gross yields.

[5] Federal Home Loan Mortgage Corp. Existing Construction only.

[6] Securities for 0 to 30 day delivery.

[7] Prior to January 1984 this rate was for Aaa-rated New Issue Utility Bonds.

[8] Year-to-date seasonally adjusted series not calculated.

MORTGAGE BANKING ACTIVITY

LONG-TERM MORTGAGE LOANS CLOSED[1]

YEAR AND MONTH	NOT SEASONALLY ADJUSTED									SEASONALLY ADJUSTED			
		1-4 Units				5+ Units							
	Total	Total	FHA	VA	Conv.	Total	FHA	Conv.	Non-[3] res.	Total[2]	1-4 Units	5+ Units	Non-[3] res.
1984													
JUL	$ 3,760	$ 3,330	$ 800	$ 530	$ 2,000	$ 0	$ 0	$ 0	$ 430	$3,530	$2,960	$ 0	$460
AUG	3,570	3,070	520	380	2,170	0	0	0	500	3,120	2,600	0	510
SEP	3,050	2,400	550	380	1,470	70	70	0	580	3,380	2,500	120	780
OCT	3,700	3,110	820	470	1,820	0	0	0	590	3,600	2,920	0	750
NOV	3,370	3,090	820	470	1,800	0	0	0	280	3,890	3,610	0	280
DEC	5,250	4,090	1,280	690	2,120	80	0	80	1,080	4,880	3,860	70	770
1983 Total	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1984 Total	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
12 MONTHS[5]													
1984	53,170	44,500	10,850	7,130	26,520	1,980	120	1,860	6,680				
1983	65,050	55,680	20,620	12,570	22,490	3,840	810	3,030	5,530				
1982	29,250	24,440	8,510	5,160	10,770	1,580	640	940	3,230				
1981	33,470	25,830	8,380	6,200	11,250	1,740	770	970	5,910				

COMMITMENT ACTIVITY: LONG-TERM MORTGAGE LOANS[1]

YEAR AND MONTH	COMMITMENTS DURING MONTH								OUTSTANDING COMMITMENTS END OF MONTH					
	To Borrowers				From Investors				To Borrowers			From Investors		
	Total	1-4 Units	5+ Units	Non-[3] res.	Total	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.	1-4 Units	5+ Units	Non-[3] res.
1984														
JUL	$ 4,060	$ 2,940	$ 0	$1,120	$ 4,050	$ 3,580	$ 20	$ 450	$10,840	$ 70	$570	$9,870	$250	$1,570
AUG	2,920	2,630	0	290	4,220	3,380	10	830	7,430	40	500	7,730	210	1,600
SEP	2,910	2,640	30	240	2,760	2,400	80	280	7,350	300	500	7,460	480	800
OCT	3,910	3,240	0	670	4,550	4,090	30	430	7,660	170	540	8,400	370	740
NOV	3,430	2,820	0	610	3,880	2,760	170	950	7,460	40	690	6,940	270	1,050
DEC	5,450	4,090	430	960	4,850	3,910	80	860	7,850	100	750	7,810	260	1,170
1983 TOTAL	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1984 TOTAL	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
12 MONTHS[5]														
1984	50,100	41,420	510	8,170	55,550	43,820	3,160	8,570						
1983	81,070	67,740	4,310	9,020	79,450	64,240	5,770	9,440						
1982	47,800	36,760	3,330	7,710	46,740	34,380	3,960	8,400						
1981	36,700	30,170	1,200	5,330	44,700	30,410	1,740	12,550						

OUTSTANDING END OF MONTH INVENTORY[1]

YEAR AND MONTH	Total	1-4 Units				5+ Units			Non-res.[3]
		Total	FHA	VA	Conv.	Total	FHA	Conv.	
1984									
JUL	$8,870	$6,990	$1,480	$1,090	$4,420	$730	$0	$730	$1,150
AUG	7,070	5,520	1,060	740	3,720	640	0	640	910
SEP	7,390	5,490	1,010	680	3,800	640	0	640	1,260
OCT	8,060	6,350	1,190	870	4,290	600	0	600	1,110
NOV	8,010	6,280	1,190	850	4,240	590	0	590	1,140
DEC	6,840	6,090	1,500	980	3,610	170	0	170	580

MORTGAGE BANKING ACTIVITY (Cont'd.)

YEAR AND MONTH	COVERAGE[4] 1-4 Units	COVERAGE[4] 5+ Units	COVERAGE[4] Non-[3] res.	SERVICING VOLUME[1] Total	SERVICING VOLUME[1] 1-4 Units	SERVICING VOLUME[1] 5+ Units	SERVICING VOLUME[1] Non.[3] res.	NOTES PAYABLE[1] (End of Month Balances) Total	Comm. Paper	To Banks	To Others
1984											
JUL	55%	31%	91%	$421,420	$317,600	$63,980	$39,840	$41,960	$6,190	$12,710	$23,060
AUG	60	31	113	363,570	282,400	42,060	39,110	47,940	5,750	13,220	28,970
SEP	58	51	45	381,070	302,840	39,300	38,930	59,220	4,520	14,240	40,460
OCT	60	48	45	417,780	339,960	40,660	37,160	57,230	4,830	17,070	35,330
NOV	51	43	57	422,490	350,580	39,790	32,120	54,180	4,820	19,180	30,180
DEC	56	36	88	376,270	321,620	33,110	30,540	42,260	8,390	23,680	10,210

CONSTRUCTION AND LAND LOAN ACTIVITY[1]

YEAR AND MONTH	CONSTRUCTION LOANS CLOSED Total	1-4 Units	5+ Units	Non-[3] res.	DISBURSEMENTS DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans	END OF MONTH INVENTORY Total	1-4 Units	5+ Units	Non-[3] res.	Land Loans
1984														
JUL	$790	$130	$210	$450	$280	$ 70	$10	$200	$180	$2,760	$ 900	$240	$1,620	$1,120
AUG	410	110	130	170	100	60	0	40	90	2,200	790	190	1,220	830
SEP	440	100	160	180	100	50	10	40	120	2,150	790	180	1,180	800
OCT	400	210	100	90	90	40	10	40	130	2,180	780	220	1,180	870
NOV	210	140	50	20	170	110	20	40	240	3,520	1,380	410	1,730	2,260
DEC	470	270	120	80	430	220	30	180	470	9,240	3,790	790	4,660	3,440

COMMITMENTS TO BORROWERS: AND LAND CONSTRUCTION LOANS[1]

YEAR AND MONTH	ISSUED DURING MONTH Total	1-4 Units	5+ Units	Non-[3] res.	END OF MONTH BALANCES Total	1-4 Units	5+ Unnits	Non-[3] res.
1984								
JUL	$1,730	$130	$ 60	$1,540	$4,090	$870	$470	$2,750
AUG	770	190	80	500	3,680	850	460	2,370
SEP	760	100	80	580	4,170	760	580	2,830
OCT	710	150	160	400	3,820	860	590	2,370
NOV	380	140	70	170	3,230	680	430	2,120
DEC	790	200	10	580	3,910	930	280	2,700

Notes: [1] All dollar amounts are in millions.

[2] Total is seasonally adjusted separately from components. Total, therefore, may not equal sum of parts.

[3] Series labeled non-residential are also inclusive of farm data.

[4] Percent coverage equals outstanding commitments received from investors divided by the sum of outstanding end of month inventory and outstanding commitments issued to borrowers, all multiplied by 100.

[5] Year-to-date seasonally adjusted series not calculated.